

IFRS Accounting Update

Spring 2009

Welcome to the Spring 2009 edition of our IFRS Accounting Update, aimed at companies either with securities already traded on one of the UK Capital Markets, or contemplating admission to trading, and advisers to those companies.

By its nature, this publication is for guidance only and cannot substitute for detailed research or advice on the applicability of the standards and interpretations to an entity's own individual or group circumstances.

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International Financial Reporting Standard (“IFRS”)¹ and International Financial Reporting Interpretations Committee (“IFRIC”) update

Introduction

As companies come to grips with the changes that came into effect for accounting periods starting on or after 1 January 2009 (see Winter 2008-2009), so the next phase of amendments have been issued which in the main are either effective later in this current calendar year or for accounting periods commencing on or after 1 January 2010.

In addition any company seeking an admission of securities to trading must look at the changes to ensure that where IFRS is to be adopted for the first time in support of admission, that the correct version of the standard is being applied, which may, in some cases require earlier application than for some companies whose securities are already admitted.

Changes to “equivalence” to IFRS as adopted in the EU for third country (i.e. non-EEA issuers)

The Prospectus Rules and AIM Rules for Companies have always allowed a GAAP which is deemed equivalent to IFRS as adopted in the EU. Originally, the Committee of European Securities Regulators (CESR) issued advice on equivalence in 2005 and concluded that certain GAAPs could be used as long as remedies were included (ranging from additional disclosures to reconciliations of differences).

This was updated by a decision by the European Commission in 2006, and that decision was repealed with effect from 1 January 2009 by decision 2008/961/EC.

In that decision, the following GAAPs are to be treated as equivalent to IFRS adopted pursuant to Regulation (EC) No 1606/2002 from 1 January 2009:

1. IFRS as issued by the IASB (providing the notes to the financial statements contain an explicit and unreserved statement of compliance in accordance with IAS1: Presentation of Financial Statements)
2. Japanese GAAP and
3. US GAAP.

In addition, the same decision identified four further GAAPs which are permitted to be used for periods commencing before 1 January 2012. These are:

1. Chinese GAAP
2. Indian GAAP
3. Korean GAAP and
4. Canadian GAAP

What is important to note is that these equivalent and permitted GAAPs have arisen from the positive moves by the relevant local standard setters to converge with IFRS. The situation, particularly for the permitted GAAPs, is being monitored in the period to 31 December 2011.

It is vital for companies to recognise therefore that the equivalent and permitted GAAPs are those that apply with effect from 1 January 2009, and not necessarily those that have applied before that date, so some re-statement or additional disclosures are likely.

AIM has not currently changed its permitted GAAPs for non-EEA registered companies; these remain IFRS as adopted in the EU, and the GAAPs of the US, Japan, Australia and Canada.

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Footnotes

1. International Financial Reporting Standards, (IFRSs) including International Accounting Standards (IASs) as issued by the International Accounting Standards Board (IASB)

EU Endorsement

As a reminder, the EU has a two tier endorsement process which may affect companies financial reporting depending which market rules apply.

Since the previous edition, most of the new or amended Standards or Interpretation Statements summarised therein have been endorsed, but some issued during 2008 or before, but effective for accounting periods commencing on or after 1 January 2009 (or prior) are yet to be endorsed.

At the time of writing, those past changes together with those effective for accounting periods beginning on or after 1 July 2009 (or prior) which are yet to be endorsed are summarised below:

Standard/Interpretation Statement	<i>Effective date: Periods commencing on or after</i>	<i>Endorsement status: Expected (as at 30 Apr 09)</i>
IAS27 Consolidated and Separate Financial Statements	1 Jul 09	Q2 2009
IFRS3 Business Combinations (Revised 2008)	1 Jul 09 (see note below)	Q2 2009
IFRIC15 Agreements for the Construction of Real Estate	1 Jan 09	Q2 2009
IFRIC16 Hedges of a Net Investment in a Foreign Operation	1 Oct 08	Q2 2009
IFRIC17 Distributions of Non-Cash Assets to Owners	1 Jul 09	TBC
Amendments to		
IFRS 1 First-time Adoption of IFRS	1 Jul 09	TBC
IFRS 7 Financial Instruments: Disclosures: Effective Date and Transition	From 1 Jul 08	Q2 2009
IAS39 Reclassification of Financial Assets: Effective Date and Transition	From 1 Jul 08	Q2 2009
IAS39 Financial Instruments; Recognition and Measurement: Eligible Hedged Items	1 Jul 09	Q2 2009

Note: effective for transactions on or after the effective date, not for periods commencing on or after that date

Endorsement does not affect the date from which the standard is effective; in this regard it is worth drawing attention to IFRIC12: Service Concession Agreements which is effective for accounting periods starting on or after 1 January 2008 but was only endorsed in late March 2009.

As noted above, non-EEA companies may now use full IFRS but only with the explicit and unreserved statement of compliance. Therefore it is important to note the differences between full IFRS and IFRS endorsed by the EU while standards, amendments or interpretations remain subject to the endorsement process.

For new changes summarised below, see the "[Quick Check](#)" table for the endorsement status at the time of writing.

The latest endorsement status should be checked at:

<http://www.efrag.org/content/default.asp?id=4090>.

What is changing?

The “[Quick Check](#)” table sets out the known changes as at 30 April 2009. Unless otherwise stated, early adoption is permitted, although companies should be aware that transitional arrangements might apply in some cases and certain requirements are interlinked such that early adoption requires the related amendment to the other standard(s) to be early adopted at the same time.

A large number of the changes are prospective, but where there is a major change which applies retrospectively, this will require the restatement of comparatives, where applicable, and so companies may need to gather the information for both the old and new accounting requirements. However, in practical terms much of this information would have to be collated anyway to comply with the mandatory disclosure of the impact of standards and interpretations issued but not yet effective, in accordance with IAS8.

In the pipeline

The IASB and IFRIC remain busy with convergence, particularly with FASB (the US standard setter) and also have a number of discussion papers and exposure drafts open for comment.

Some examples are:

- Exposure draft for a new standards for
 - Income Taxes (to replace IAS12),
 - Consolidated Financial Statements (combining IAS 27 & SIC 12) and
 - amendments to derecognition requirements in IAS 39 and associated IFRS 7 disclosures.
- Discussion Papers on Revenue Recognition in Contracts with Customers Leases and Financial Statement Presentation.

As the final standards or amendments to standards and interpretation statements are issued, they will be summarised in future updates.

The IASB website is regularly updated – see <http://www.iasb.org/Home.htm> .

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Quick check

Standard/Interpretation Statement	<i>Effective date: Periods commencing on or after</i>	<i>Endorsement status: Expected (as at 30 Apr 09)</i>
Revised standard		
IFRS1 First-time Adoption of IFRS	1 Jul 09	TBC
New interpretation statement		
IFRIC18 Transfers of Assets from Customers	1 Jul 09 (see Note 1 below)	TBC
Annual improvements project		
IFRS2 Share-based Payment	1 Jul 09	TBC
IFRS5 Non-current Assets Held for Sale and Discontinued Operations	1 Jan 10	TBC
IFRS8 Operating segments	1 Jan 10	TBC
IAS1 Presentation of Financial Statements	1 Jan 10	TBC
IAS7 Statement of Cash Flows <i>(Including consequential amendments to IFRS 6)</i>	1 Jan 10	TBC
IAS17 Leases	1 Jan 10	TBC
IAS18 Revenue	*	TBC
IAS36 Impairment of Assets	1 Jan 10	TBC
IAS38 Intangible Assets	1 Jul 09	TBC
IAS39 Financial Instruments: Recognition and Measurement	Part, 1 Jan 09 Part, 1 Jan 10	TBC
IFRIC9 Reassessment of Embedded Derivatives	1 Jul 09	TBC
IFRIC16 Hedges of a Net Investment in a Foreign Operation	1 Jul 09	TBC
Other amendments		
IFRS7 Financial Instruments: Disclosures	1 Jan 09	TBC
IFRIC 9 and IAS39 Embedded Derivatives	Periods ending on or after 30 Jun 09	TBC

*No change to the effective date of the original standard

Note 1: effective for transfers of assets received from customers on or after the effective date, not for periods commencing on or after that date

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Revised standard and new interpretation statement

These changes are new or fully fledged revisions to existing standards or new interpretations. Most apply prospectively with early adoption permitted; however, caution is required over the interaction with some other standards and changes.

Standard/Interpretation Statement		Summary of main amendments	Effective for periods commencing on or after
IFRS1	First Time Adoption of IFRS	Retains the substance of the previous standard but changes the structure	1 July 2009
IFRIC18	Transfers of Assets from Customers	<p>Relates to PP&E (or cash that must be used to construct or acquire PP&E) transferred to an entity by a customer for use in relation to a contract for supply of goods or services (or to connect the customer to a network).</p> <p>Assets are recognised and measured in accordance with IAS16[24] when the transferred item meets the definition of an asset. A liability for any obligation to supply goods or services is recognised and initially measured at the fair value of the asset received. This obligation is recognised through profit or loss as revenue as goods or services are provided.</p> <p>Cash that must be used to construct or acquire PP&E that does not result in the recognition of an asset is accounted for in accordance with IAS 11 Construction Contracts or IAS 18 Revenue.</p> <p>Where the asset is in exchange for dissimilar services, the receiving entity shall recognise revenue (see IAS18[12]).</p>	Applies prospectively to transfers of assets from customers received on or after 1 July 2009

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Improvements Project

The table below summarises the changes arising from the second Annual Improvements together with the dates they will come into effect. For the first time the Improvements Project also incorporates amendments to IFRIC Interpretations. Most are prospective with effect for accounting periods starting on or after 1 January 2010, but those affecting IFRS2, IAS18, IAS38, IAS39 and the amendments to IFRIC9 and IFRIC16 are earlier. In particular, the change to IFRS8 requires the comparatives to be restated and the amendment to IAS17 requires retrospective application. Although most are permitted to be adopted early, care should be taken as early adoption in some cases is conditional on early adoption of another standard or change, or transitional provisions may apply. None have been endorsed for application within the EU at the time of writing.

Standard/Interpretation		Summary of main amendments	Effective for periods commencing on or after
IFRS2	Share-based Payment	Change to exclusions from the scope to reflect the amended definition of a business combination in the 2008 revision of IFRS3 (combinations of entities or of businesses under common control and contributions of businesses on the formation of joint ventures (defined in IAS31))	1 July 2009 If an entity applies IFRS3 (Revised 2008) for an earlier period, these amendments shall also be applied
IFRS5	Non-current Assets Held for Sale and Discontinued Operations	Clarifies that disclosure requirements in other standards only apply if that other standard explicitly requires disclosures in respect of non-current assets or disposal groups held for sale or discontinued operations or requires measurement disclosures not within the scope of the measurement requirements of IFRS 5 are not already disclosed in other notes. However this is qualified by reference to the possibility of other disclosures being necessary to comply with IAS1[15] (the requirement for fair presentation) and IAS1[125] (disclosure of assumptions and other major sources of estimation uncertainty that carry a significant risk of a material change to the carrying amounts within the next financial year)	1 January 2010 prospectively
IFRS6	Exploration for and Evaluation of Mineral Resources	Not directly amended but see IAS7 below	1 January 2010
IFRS8	Operating Segments	Eliminates an unintended difference in practice to US GAAP by making the requirement to report a measure of total assets for each reportable segments only if such amounts are regularly provided to the chief operating decision maker (the same criteria as liabilities. The original wording required a measure for total assets to be reported for each reportable segment in all circumstances, as is required for profits or losses)	1 January 2010 Comparative information to be restated unless information is not available and cost to develop it would be excessive

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Standard/Interpretation		Summary of main amendments	Effective for periods commencing on or after
IAS1	Presentation of Financial Statements	Amendment to clarify that terms of a liability that permit a counterparty (at their option) to elect for settlement by the issue of equity instruments (i.e. convertible instruments) does not affect the classification of the liability component of the instrument as current or non-current .	1 January 2010
IAS7	Statement of Cash Flows	<p>Clarifies that only expenditure on items that result in a recognised asset in the Statement of Financial Position may be classified as investing activities in the Statement of Cash Flows</p> <p>Introduces a Basis for Conclusions.</p> <p>Amends the Basis for Conclusions of IFRS6: Exploration for and Evaluation of Mineral Resources clarifying that the exemptions from IAS8[11] and IAS8[12] (guidance on developing an accounting policy when no IFRS specifically applies to an item) do not apply to classification of cash flows</p>	1 January 2010
IAS17	Leases	<p>Requires the separate assessment of the land and building elements of leases as either a finance or operating lease, drawing attention to an important consideration in determining the treatment being that land normally has an indefinite economic life. Previously land elements with an indefinite economic life were normally classified as an operating lease unless title was expected to pass to the lessee at the end of the lease.</p> <p>All unexpired land leases at the date of adoption of the amendment are to be reassessed based on information at inception of the lease and any newly classified finance leases must be restated retrospectively. Where the information at inception of the lease is not available leases shall be reassessed and the entity shall apply any amendments based on information at the date the amendment is adopted and recognise the asset and liability on any newly classified assets at their fair values on that date with any difference reflected in retained earnings (this is a transitional measure only and not intended for new leases after adoption).</p>	<p>1 January 2010</p> <p>Retrospective for land leases which are reclassified as finance leases based on information at inception of the lease</p>

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Standard/Interpretation		Summary of main amendments	Effective for periods commencing on or after
IAS18	Revenue	<p>Adds an example of determining whether an entity is acting as principal or agent by reference to its exposures to significant risks and rewards.</p> <p>Exposure to inventory and customer credit risk, responsibility for delivery and ability to establish prices are indicators that an entity is acting as principal.</p> <p>Revenue recognised by agents is the amount of commission received which is often a fixed fee per transaction or percentage of amounts billed to the customer.</p>	No amendment to the effective date of the original standard (preparers should refer to IAS8 if the amendment results in a material change to prior periods)
IAS36	Impairment of Assets	Clarifies the largest permissible cash generating unit for the purpose of goodwill impairment testing by reference to the definition of a reportable segment within IFRS8 as being <i>before</i> aggregation.	1 January 2010 (prospectively)
IAS38	Intangible Assets	<p>Further amendments to clarify the Board's decisions on accounting for intangible assets acquired in a business combination arising from the issue of IFRS3 (Revised 2008) (i.e. that sufficient information exists to measure fair value where intangible assets are separable or arise from contractual or other legal rights), particularly where intangible assets are separable but only with a related asset or liability.</p> <p>Includes additional examples of commonly used alternative valuation methods where there is no active market (such as avoided costs of licensing, replacement or re-creation).</p>	<p>1 July 2009 (prospectively)</p> <p>If an entity applies IFRS3 (Revised 2008) for an earlier period, these amendments shall also be applied</p>
IAS39	Financial Instruments: Recognition and Measurement	<p>Amendment to remove reference to segments in qualifying hedged items to avoid a potential conflict between the standard and IFRS8.</p> <p>Clarifies that the use of the exemption afforded by paragraph 2(g) (certain contracts associated with business combinations) is restricted to business combinations that are firmly committed to be completed and are not dependent on further action by either party. Hence such contracts are not accounted for as derivatives while certain necessary processes are being completed (eg regulatory and legal approvals for the combination). Applies to forward contracts only.</p> <p>Clarification that hedge accounting gains or losses taken to equity should be reclassified to profit or loss in the period(s) in which the hedged forecast cash flows affect profit or loss.</p> <p>Addition to the application guidance to remove an inconsistency, such that a loan prepayment option may be treated as closely related to the host contract where the exercise price approximates to the present value of lender's lost interest over the remaining term of the host contract.</p>	<p>1 January 2009</p> <p>1 January 2010 (prospectively to all unexpired contracts)</p> <p>1 January 2010</p>

Standard/Interpretation				Summary of main amendments	Effective for periods commencing on or after
IFRIC9	Reassessment of Embedded Derivatives			Amendment to scope to reflect the changes to the definitions within IFRS3 (revised 2008) so excluding embedded derivatives arising in combinations of business under common control or in the formation of a joint venture as defined in IAS31.	1 July 2009 (prospectively) If an entity applies IFRS3 (Revised 2008) for an earlier period, these amendments shall also be applied
IFRIC16	Hedges of a Net Investment in a Foreign Operation			Removes the restriction on which entity can hold the hedging instrument by removing the exclusion from derivatives that may be designated as a hedge those held by a foreign operation that is itself being hedged. This corrects an incorrect conclusion in the original IFRIC that exchange differences on such hedging instruments would automatically be included in the translation reserve as part of the consolidation process.	1 July 2009 Early adoption is permitted subject to meeting hedging designation, documentation and effectiveness requirements in IAS 39

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Other amendments

The following table summarises other recent amendments to IFRSs which were neither part of the improvements project, nor fully fledged revisions to existing standards. This does not include consequential changes arising from more substantive changes to other standards. In general terms, amendments which give rise to terminology changes are likely to alter the same terminology when it is used in other standards.

Standard		Summary of main amendments	Effective for periods commencing on or after
IFRS7	Financial Instruments: Disclosures	<p>Requires disclosure of changes in valuation techniques used and the reasons for the change.</p> <p>Introduces a hierarchy for fair value measurement disclosures that reflects the significance of the inputs and is applied at the <i>lowest</i> level input significant to the fair value measurement in its entirety:</p> <ul style="list-style-type: none"> (a) Quoted prices in active markets for identical assets or liabilities (Level 1) (b) Inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2) (c) Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3). <p>Requires additional disclosures in relation to that hierarchy to provide more information about the relative reliability of the inputs to fair value measurements.</p> <p>Enhances disclosure requirements in relation to liquidity risk (the definition of which is amended) arising from an entities exposure to financial instruments with consequent changes to the application guidance and a small consequential change to IFRS4: Insurance Contracts.</p>	1 January 2009
IFRIC9 and IAS39	Reassessment of Embedded Derivatives Financial Instruments: Recognition and Measurement	<p>Clarifies that when entities make use of the October 2008 reclassification amendment, to reclassify a financial asset out of the “at fair value through profit and loss” category, all related embedded derivatives must be reassessed (at the latter of the date the entity became party to the contract and the date of any significant changes to the cash flows as a result of changes to the contract terms) to determine if they should be accounted for separately. If the embedded derivatives cannot be accounted for separately the entire contract shall remain as “at fair value through profit and loss”.</p>	<p>Periods ending on or after 30 June 2009</p> <p>(consequently early adoption is not specifically permitted)</p>

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